CHAPTER I

INTRODUCTION

The 1980s marked a turning point in the conception of wealth creation. Management came to realize that the principal assets of a company also include its intangible assets like brand, copyright, patent, know-how, market structure, company reputation etc. The old concept, which measured the value of a company in terms of its building, land, plant and machinery only, was changed and it was realized that a major part of its value lies outside the business itself, in the mind of potential buyers.

A brand helps the seller to communicate with the potential buyer regarding the products or services to be offered and creates value for the company. Brand consists of name, symbol (logo or mascot) or any graphics, design layout or a combination of them. Every product has separate trademark but some products have valuable brand names. Every brand has essentially a trademark but all trademarks are not considered as brands. Brands enable the sellers to distinguish their products or services from their competitors and help to create competitive advantage in marketing. At the same time, brands also help the buyers to identify the products or services by the brand name and thus add convenience in the buying process. A brand creates a psychological affinity to a product or service among consumers.

A branded product charges a price premium than other non-branded products and the customers are also willing to pay the higher price for the branded product. Brand creates an emotional augmentation of product and also de-commoditise the product in the eyes of customer (e.g. Coca-Cola is the ultimate brand which has turned fizzy sugar water into ‘the real thing’).

Brand creates special value to the product and places the seller in an advantageous position than the other sellers. The value of brand actually lies in the mind of the potential buyers and, therefore, is very difficult to measure. It should be determined by measuring the buyer’s intention to pay for the product.
without any hesitation. Variables like product quality, consistency, advancement with technology, luxury status, packaging, and advertisements of the product are some of the key factors that influence and determine the buyer’s intention. Now-a-days brand can be evaluated and sold like any other assets. Valuation of brand is essential at the time of “sale of brand” and fulfilling the principle of disclosures. Consistent valuation procedures with supporting practical assumptions are the need of the day.

1.1. NATURE OF THE PROBLEMS AND OBJECTIVES OF THE STUDY:

In last few years, brand valuation has become an accepted technique in a wide range of business applications. The investors, analysts, shareholders of a company are interested in what a company is worth. There are accounting/economic methods that consider the cash flow generated by brands, and their economic benefits, to do the brand valuation. These brand valuation methods either consider the historic costs of an asset or the replacement costs i.e. the cost of building a new brand from scratch. Since brands are intangible assets, it is very difficult to measure the value of a brand and most of the methods developed so far lack validity, or suffer from the problem of subjectivity.

The third approach attempts to model future sales and market share by recognizing multiple factors involved. These methods aim at valuing a brand in terms of brand equity which is based on set of assets (or liabilities) like brand loyalty, perceived quality, name awareness etc. linked to a brand. Here the value of a brand is perceived as the additional future cash flow generated by the preference of the customers towards the brand compared to the same offering without the branding.

Aaker's (1991) definition of brand equity describes it as “a set of assets and liabilities linked to a brand, its name and symbol, that add value or subtract
from the value provided by a product or service to a firm and/or to that firm’s customers”.

In recent past there have been considerable amounts of research to develop brand valuation methods based on this concept.

Here in our study, we have done a thorough research on different aspects of branding and brand valuation methods existing in the world market. With this global focus, we considered examples and data mostly related to Indian brands, compared them with the international scenario and analysed them to draw meaningful conclusions.

We also made an attempt to formulate a brand valuation method by

i) identifying the factors that influence or determine the consumer behaviour,
ii) quantifying their roles in determining the consumer behaviour.
iii) translating the consumer preference probabilities to market share calculation
iv) developing a method to estimate the value of a branded product in terms of its market share.

1.2. OBJECTIVE:

In the first part of our study we tried to explore

- the role of brand name and symbol in creating brand awareness,
- the justification for valuation of the additional financial benefits created by a brand
- business laws and acts related to brand valuation,
- different layers of connection between a brand and its consumers,
- existing brand valuation methods.

In the later part, we have done a market research survey to conduct a case study on a number of detergent brands in India. Consumer responses on certain factors influencing their purchase patterns were observed in the survey. Based on the sample data we tried to
• identify and list factors that have roles in the valuation of a brand  
• get consumer ratings of those factors according to their importance  
• get consumer ratings (preference) of the brands according to those factors  
• get consumer profile like age, income, family size etc.  
• investigate the dependence of a customer's brand preference on his/her profile.  
• estimate the market share for each brand from the brand preference ratings.  
• determine the projected sales of each brand for coming 3 years  
• determine the premium revenue of each brand  
• measure the value of each brand from market share, projected sales figure, and premium revenue of each brand

1.3. METHODOLOGY:

The present study is both explorative and empirical in nature. In the explorative part, we examined different published journals, books, published acts, accounting standards published by different statutory bodies of different countries. In this study we have done comparative analysis of different accounting standards in India and abroad and summarised the results. This study also analysed published annual reports of different companies regarding the reporting of purchased-brands and self-generated brands. We also explored different case studies.

In the context of empirical study, we took a random sample of 145 consumers in and around Kolkata. 120 consumers have been chosen from different parts of Kolkata and remaining 25 have been selected from Howrah and North 24 Parganas. The reason for selecting these areas is that the consumers of these areas have knowledge and experience about the different detergent brands considered in our study.
Different steps of this empirical study:

- To identify the factors influencing brand valuation.
- To prepare questionnaires with precise and specific sets of questions.
- To conduct a pilot survey with a sample of 25 consumers to examine the feasibility and appropriateness of the questionnaires and rectify it, and then go for the actual survey.
- To compute market share of each brand considering performance of brand on consumer community and brand perception.
- To compute the value of brands from market share projected sales figure, and premium revenue of each brand.
- To use different software packages like: R, SPSS, Maple, Microsoft Excel, etc. to compute the results.

1.4. CHAPTERS:

The research report has been divided into the following eight chapters:

1. Introduction
2. Literature Review
3. Brand Name and Symbol
4. Brand as an Asset
5. Brand and Consumer Behaviour
6. Existing Brand Valuation Models
7. Proposed Brand Valuation Model
8. Summary and Conclusion